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Tokyo Adopts Additional Measures To Stimulate Economy

On May 30 Tokyo adopted emergency measures to cushion the economy from the deflationary impact of the strong yen. This step followed the pump-priming measures announced April 8 (see JEI Report No. 15B, April 18, 1986), which assumed that the dollar would stabilize at about Y180=$1.00. Takao Akabane, an official of the Economic Planning Agency, downplayed the package, however, noting that "We cannot expect these measures to have [as] big [an] impact on the gross national product as the April 8 package."

Last week's move calls on three government financial institutions to cut interest rates on loans to small and medium-sized firms. (The current budget

Japan Is Top Net Creditor Nation

The Ministry of Finance reported last week that Japan replaced Britain in 1985 as the world's largest net creditor nation. Japan's official and private foreign assets exceeded liabilities by $129.8 billion at the end of 1985, compared to $74.4 billion a year earlier (see Table 1). The sharp rise in net external assets resulted from Japan's huge $56 billion trade surplus last year, much of which was invested in U.S. government bonds.

Table 1: Japan's Net External Assets

(in millions of dollars)

End of Year	Private Sector	Government Sector	Total
1978	-$2,550	$38,764	$36,214
1979	850	27,927	28,777
1980	-16,659	28,193	11,534
1981	-18,537	29,455	10,918
1982	2,046	22,636	24,682
1983	11,928	25,331	37,259
1984	47,069	27,277	74,346
1985	104,450	25,371	129,821

Source: Bank of Japan and Nihon Keizai Shimbun, May 27, 1986.

Japan's net assets have increased substantially since 1981, when the private sector had net liabilities of more than $18.5 billion. Japan has overtaken Britain and West Germany, whose net external assets were about $90 billion and $50 billion, respectively, at the end of 1985. In the wake of its huge trade deficit, the United States became a debtor nation last year for the first time since World War I, with net liabilities of about $60 billion.

Japan's external assets increased 28.3 percent to $437.7 billion last year, while liabilities rose 15.4 percent to $307.9 billion (see Table 2). The increase in liabilities was largely a result of short-term commercial borrowing from abroad, corporate bond offerings in overseas markets and foreign purchases of Japanese government bonds.

Holdings of foreign securities, which rose 66.4 percent to $145.8 billion, now account for one-third of gross foreign assets. Portfolio investments are concentrated mainly in bonds; net purchases of foreign equities totaled only $1.2 billion in 1985 compared to bond purchases of $53.5 billion. American securities were popular last year despite the declining dollar, accounting for 86 percent of total overseas purchases, an increase from 75 percent calculated by Salomon Brothers Inc. in 1984. Although Japanese purchases of U.S. corporate bonds quadrupled to $2.9 billion last year, according to Daiwa Securities America Inc., Treasury bonds remain the most important financial instrument, accounting for about four-fifths of total purchases of

foreign securities. Japanese investors funded about one-third of this country's budget deficit last year and are estimated to hold about $100 billion in Treasury bonds.

Table 2: Japan's External Assets and Liabilities

(in millions of dollars)

	Assets		Liabilities	
	End of 1984	End of 1985	End of 1984	End of 1985
Long-Term	$229,184	$301,297	$113,222	$122,328
Private Sector	191,946	264,458	83,738	91,776
Direct Investments	37,921	43,974	4,458	4,743
Trade Credits	22,824	23,603	24	131
Loans	40,601	46,870	1,266	1,211
Securities	87,578	145,748	77,081	84,847
Others	3,022	4,263	909	844
Government Sector	37,238	36,839	29,484	30,552
Trade Credits	1,189	1,062	103	84
Loans	24,491	23,293	29,381	30,468
Others	11,558	12,484	0	0
Short-Term	112,024	136,404	153,640	185,552
Private Sector	84,761	108,753	145,900	176,985
Monetary Movements	77,562	99,719	130,098	160,984
Others	7,199	9,034	15,802	16,001
Government Sector	27,263	27,651	7,740	8,567
Monetary Movements	27,261	27,650	3,590	4,557
Others	2	1	4,150	4,010
Total	341,208	437,701	266,862	307,880

Source: Nihon Keizai Shimbun, May 27, 1986.

Japan's direct foreign investment assets rose 16 percent to $44 billion in 1985. A notable trend has been the shift of direct investment to developed countries, particularly the United States. During FY 1985, the United States and Canada accounted for 45 percent of Japanese direct investment, while Asia's share dropped to 12 percent, partially as a result of a withdrawal from Hong Kong and diminished investment in China. Moreover, the outflows of funds to the Middle East plummeted 83 percent, while direct investment in Africa fell by one-half.

Despite the rapid increase in Japan's overseas direct investment, it accounts for only 10 percent of gross external assets, considerably below the 26 percent level of the United States and West Germany's 14 percent. The Maekawa Report (see JEI Report No. 13B, April 4, 1986) called for a doubling over the next seven years of net direct foreign investment as a share of gross domestic product. In addition, an advisory committee to the Minister of International Trade and Industry recently called for an annual 12 percent

increase in overseas direct investment to reduce Japan's trade surplus to $2 billion in the year 2000. Such an increase, the committee estimated, would create nearly 2 million jobs abroad at the expense of 560,000 jobs in Japan.

In terms of gross external assets, Japan still trails the United States and Britain, which had $914.7 billion and $712.2 billion, respectively, at the end of 1984. But Japan's total is likely to expand rapidly as its trade surplus increases this year and businesses step up direct investment abroad to bypass the impact of the strong yen.

Randall S. Jones

Curtain Rises On Special Session; Stage Set For Double Election

Officially, Japan's Diet is meeting in a special session to consider emergency measures to help companies hard hit by the yen's appreciation. However, most observers of the political scene agree that the more pressing reason for the gathering is that it will enable the cabinet to dissolve the lower house, a parliamentary maneuver necessary if the Diet is to hold double elections in early July.

These developments mark a significant political victory for incumbent Liberal Democratic Party president Yasuhiro Nakasone, who has favored calling double elections for the Diet, both to strengthen the ruling party and to enhance his own influence in the party's inner circle. But because the Supreme Court had ruled that the apportionment of lower house seats was unconstitutional, the prime minister was stymied until the Diet approved a realignment in the final moments of the regular session, which ended May 22 (see JEI Report No. 19B, May 16, 1986).

The electoral reform legislation, however, also prohibited lower house elections for 30 days after the effective date of the bill, which meant that the prime minister could not call elections immediately after the regular session concluded. In response, Mr. Nakasone pressed ahead with an alternative plan to neutralize the 30-day ban by calling a special session of the Diet, renewing his option for twin balloting. Although opposition parties and Nakasone rivals adamantly opposed the proposal, some senior LDP officials reportedly backed the idea because they felt the timing would be advantageous. In 1980, the last time a double election was held, turnout increased dramatically and swept the LDP into the Diet with its strongest showing in years. A key figure in the succession race, Finance Minister Noboru Takeshita, also apparently agreed with this logic and came out in favor of the plan at the last minute, feeling that the results could strengthen both the party and his own political position.

Stretching out the date of the elections also helps place some distance between Mr. Nakasone and his less-than-ideal performance at the Tokyo summit. Although his political opponents could be expected to be critical under any circumstances, the summit was far from the political success the prime minister had sought to justify his continuation in office.

It is clear that Mr. Nakasone would like to retain his influence as long as possible, if not by extending his term in office then by influencing the